

THE GRAND BAHAMA DEVELOPMENT COMPANY LIMITED

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The Grand Bahama Development Company Limited is a corporation formed for the development and operation of varied interests on Grand Bahama Island. Its activities include land sales and, through associated companies, road maintenance, services, utilities, transportation and ownership of stores. In addition, it receives income from the Casinos on the Island and in Nassau.

The development of the Grand Bahama Island in the first ten months of the fiscal year of the Development Company has been the most rapid in its history.

An unaudited financial statement for this ten-month period ending August 31st, 1966 shows retained earnings at October 31st, 1965 were U.S. \$4,504,938, and net income for the next ten months was \$6,032,684 for a total retained earnings of \$10,537,622 at August 31st, 1966.

A forecast of net earnings, exclusive of Casino operations expressed in Canadian funds for the current fiscal year, ending October 31, 1966, would approximate \$8,000,000.

Land Sales

Gross land sales for the ten-month period to the end of August exceed U.S. \$18,600,000, with net sales totalling more than \$17,000,000. There is no doubt that net land sales of \$20 million will be reached by the end of the fiscal year.

The sales organization of the Development Company has been extended to many non-dollar areas and it is anticipated that sales in these areas will continue to grow materially. The company is now geared to handle any increase in sales from a planning, development, engineering, administrative or sales viewpoint.

A complete I.B.M. data processing system is being installed on the Island with direct line communication throughout the world. A sufficient supply of surveyed lots is being inventoried to meet the anticipated demand.

The expansion of sales brings with it accelerated development of roads, utilities, housing, apartments and hotels. This development, in turn, stimulates further land sales as well as increased activity in other of the company's operations to meet the needs of the population increase.

Associated Companies of the Development Company

The Development Company has a 49% shareholder's interest in most of the associated companies which provide basic services to the Freeport-Lucaya area. These companies require substantial capital investment in direct proportion to the expanding population, growth of the Freeport-Lucaya area, and the sale of land.

The financial status of some of these companies has been modified this past year by providing equity capital from the Grand Bahama Port Authority and the Development Company on a 51%-49% ratio. In other cases there has been a forgiveness of debt as exemplified by the writing off of the costs of the jet airstrip on behalf of the Airport Company.

These associated companies will be an important source of income to the Development Company in the years ahead.

To assist your understanding of the relationship and importance of these associated companies, a chart showing the corporate structure of The Grand Bahama Development Company and associated companies is shown on page 3.

Grand Bahama Service Company Limited

The Grand Bahama Service Company Limited is probably the most important of our associated companies. It is the licensing authority within the Development area and permits

the Service Company to operate and participate in many profitable enterprises.

The consolidated audited balance sheet of The Grand Bahama Service Company Limited, as of October 31st, 1965, reveals a net income of £70,638. It is impractical to estimate the profits of the Service Company for the current year, since negotiations with the government for the release of certain obligations guaranteed by the Service Company will have considerable impact on the profitability. Nevertheless, the 49% of the stock in this company owned by the Development Company is considered an excellent investment.

Cross Roads Properties Limited

This year the Development Company and the Port Authority jointly purchased Cross Roads Properties Limited for the Service Company. Cross Roads Properties owns the new International Bazaar, a shopping complex to be opened in December 1966, in which specialty shops selling goods from around the world will be represented. It is believed that it will be an attraction unmatched anywhere in the Bahamas or in the eastern part of the United States.

Freeport Stores Limited

Freeport Stores Limited is a wholly owned subsidiary of the Service Company and operates the only supermarket on the Island. It has grown from a small beginning to a large, profitable, and expanding operation.

Grand Bahama Airport Company Limited

Grand Bahama Airport Company Limited owns the jet airstrip and terminal building capable of handling up to 500,000 people annually. This year the cost of the jet airstrip was written off by the Service Company and on the basis of the fee charged for each airline passenger using the facilities, the Airport Company should be in a position to make a modest profit in the near future.

Freeport Taxi Company Limited

The Freeport Taxi Company Limited was organized to provide the essential taxi service on the Island. This year a debt of \$400,000 against this company was written off by the Service Company and it is believed that this enterprise will also show an increasing profit in the future.

The Grand Bahama Utility Company

The Grand Bahama Utility Company operates water supply, garbage facilities and the telephone division in the Freeport-Lucaya area. The unaudited financial report for October 31, 1965 shows a profit of approximately \$210,000.

This company is negotiating for the sale of 51% of the telephone division for something over \$1 million. The new partner in the Grand Bahama Telephone Company to be formed, has indicated it will provide up to \$4 million debt financing for expanding this essential facility.

Bahamas Amusements Limited

Bahamas Amusements Limited is the company which operates the Casinos on Grand Bahama Island and at Nassau.

The Development Company is not a stockholder of the Amusement Company. In return for certain guarantees the Development Company is entitled to the net profits of the Amusement Company.

During the last financial year the Development Company received \$191,809 which were the audited net profits of Bahamas Amusements Limited. (continued)

In December 1966, El Casino, adjacent to King's Inn and the International Bazaar, will open its doors. El Casino is owned by the Development Company and will be leased on a long term basis to the Amusement Company.

In 1967 a new Casino of the approximate size of El Casino will be built on Paradise Island at Nassau in which the Amusement Company will receive approximately 25% of net profits.

Casino activity has a direct relationship to the number of visitors to the Island, and the number of hotel rooms, both of which are in the ascendency. It is reasonable to assume that

the Development Company will receive an increasing return from the three large Casinos in the future.

Other Associated Companies

There are a number of other companies shown on the chart which provide essential services but do not enter into the profit picture at this time. The activities of the associated companies clearly demonstrate that the Development Company will have a broad profit base after the land inventory has been depleted, which will not be the case for many years to come.

THE GRAND BAHAMA DEVELOPMENT COMPANY LIMITED

(Incorporated under the laws of the Bahama Islands)

CONSOLIDATED BALANCE SHEET as at August 31, 1966

(Stated in United States Dollars)

CASH	\$ 2,139,546
ACCOUNTS RECEIVABLE	
—due under land sales agreement (less provision for possible terminations—	
\$ 2,940,620) (Note 2)	16,524,399
—other (less provision for doubtful accounts \$6,648)	638,568
ACCRUED INTEREST	77,533
PREPAID EXPENSES	83,546
LAND AND IMPROVEMENTS HELD FOR SALE (Note 3)	20,816,694
OPTION ON LAND PURCHASE (Note 4)	500,000
MORTGAGES AND NOTE RECEIVABLE (Note 5)	1,926,365
INVESTMENTS IN, AT COST, AND ADVANCES TO AFFILIATED COMPANIES (Note 6)	5,732,342
PROPERTY, PLANT AND EQUIPMENT, at cost less accumulated depreciation \$774,392 . .	<u>2,060,914</u>
	<u>\$50,499,907</u>

The notes attached hereto form an integral part of this Statement.

CONSOLIDATED STATEMENT OF INCOME for ten months ended August 31, 1966

(Stated in United States Dollars)

Gross land sales residential and resort . . .	\$18,606,802
Less: discounts and allowances	<u>1,569,849</u>
Net land sales (Note 2)	17,036,953
Less: cost of land sales (Note 3)	<u>4,242,892</u>
Other Income	
Net Profit of golf course operation (excluding depreciation—\$31,932) . . .	53,633
Interest	776,165
Miscellaneous	<u>138,090</u>
	<u>13,761,949</u>
Selling, administrative and general expense . .	5,471,804
Depreciation	217,711
Interest expense	141,549
Provision for possible termination of land sales agreements (Note 2)	1,814,907
Provision for foreign taxes on income	<u>83,294</u>
Net income	<u>\$ 6,032,684</u>

The notes attached hereto form an integral part of this Statement.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS for ten months ended August 31, 1966

(Stated in United States Dollars)

Retained earnings at beginning of year	\$ 4,504,938
Net income	<u>6,032,684</u>
Retained earnings at August 31, 1966	<u>\$10,537,622</u>

The notes attached hereto form an integral part of this Statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS as at August 31, 1966

Note 1—General

The consolidated financial statements include the accounts of the Company, (which is approximately 55% owned by The Grand Bahama Port Authority Limited) and all of its subsidiaries. All material Intercompany transactions have been eliminated on consolidation.

All monetary sums are expressed in United States Dollars and where necessary have been translated at the rate of U.S.\$1.00 = B\$1.02.

Note 2—Land Sales and Accounts Receivable

The Company sells land for cash or on a term basis and has adopted the accounting practice of recording the full sales price of land at the time an agreement is executed and a down payment of 20% is received. Term sales are mainly payable by equal monthly installments over five years with interest at 6% per year.

Title to lots sold on a term basis remains with the Company until fully paid. Since the purchaser is not obligated to continue paying his installments, but can terminate subject to forfeiture of payments made, a provision for terminations amounting to 15% of land sales receivables has been made. This provision is deemed adequate to provide against possible losses arising from termination.

Note 3—Land and Improvements Held for Sale

Land and improvements held for sale are stated at cost plus the estimated future costs required to fully develop areas at present on the market for sale, less those costs applicable to land sales to date.

The land owned by the Company has been divided into various areas and sub-divisions and costs are allocated to the area of sub-division concerned. Costs of sales are allocated on the basis of the proportion of future and actual costs that actual sales bears to the estimated total sales value of the respective area.

Note 4—Option on Land Purchase

Under an agreement dated July 27, 1961 for a consideration of \$500,000 the Company has acquired an option for a period of seven years from the date thereof to purchase for a further \$2,500,000 approximately 1,704 acres of land and timber cutting rights in respect of an area of approximately 100,000 acres on Grand Bahama Island. If the Company does not exercise the option before the due date the payment of \$500,000 shall be forfeited.

Note 5—Mortgages and Note Receivable

Tamarind Developments (Grand Bahama) Limited repayable \$735,734 on or before December 1966 and \$933,333 on or before December 1967 with 8% interest .	\$1,669,067
Caravel Club repayable in quarterly installments of \$4,000 with 7% interest beginning September 1, 1966 .	160,000
NOTES (Interest free) past due secured by uncon- veyed land	97,298
	<u>\$1,926,365</u>

Note 6—Investments in, at Cost, and Advances to Affiliated Companies

	Shares of Stock at Cost	Advances	Interest Free Notes
Grand Bahama Service Company, Limited	\$ 686,000	\$	\$100,000
Grand Bahama Utility Company, Limited	1,020,782	101,748	
Freeport Power Company, Limited		213,611	
Grand Bahama Airport Company, Limited		2,746	30,000
Bahamas Amusements Limited		2,577,455	700,000
Freeport Construction Company, Limited	300,000		
	<u>\$2,006,782</u>	<u>\$2,895,560</u>	<u>\$830,000</u>

Both the Grand Bahama Service Company, Limited, and the Grand Bahama Utility Company, Limited are 49% owned by the Company. This Company's equity interest in the net assets and income for the year ended October 31, 1965 was \$1,880,000 and \$206,000 respectively. Neither of these companies ever declared a dividend.

Note 7—Notes Payable

	Due Date	Amount
Aircraft purchase contracts	1966/67	\$166,666
Graham Limited	1967	500,000
Royal Bank of Canada	Demand	55,603
		<u>\$722,269</u>

Note 8—Notes Due to Parent Company

The Company is indebted to The Grand Bahama Port Authority, Limited for the purchase of land by way of 4% Notes. The Notes are repayable by monthly installment to 1971. Principal due within one year amounts to \$1,086,000.

Note 9—Share Capital and Options

Although the shares of the Company are of one class, 5,000 special shares issued are entitled to special voting rights on resolutions to place the Company into voluntary liquidation and the said 5,000 shares together with a further 5,000 special shares issued have the right at any time to appoint, remove and replace four directors of the Company. All of the above shares are held by The Grand Bahama Port Authority, Limited.

On October 31, 1961 the Board of Directors adopted an employees' restricted share option plan in respect of 125,000 common shares. The plan is governed by a committee of three Directors at whose entire discretion options may be granted and terms set. No options have been granted pursuant to this plan and there are no other options outstanding.

Note 10—Bahamas Amusements Limited

The Company has guaranteed for ten year periods various leases and other obligations of Bahamas Amusements Limited (a company which has acquired an exclusive certificate of exemption to operate casinos on Grand Bahama Island for a period of 10 years from January, 1964) to the extent of \$1,500,000 per year. The Company has also guaranteed an obligation of Bahamas Amusements Limited to construct and equip a casino and upon completion of that casino has agreed to guarantee for ten years various additional leases and other obligations to the extent of \$422,400 per year. The new casino is under construction and costs to complete are estimated at \$2,500,000.

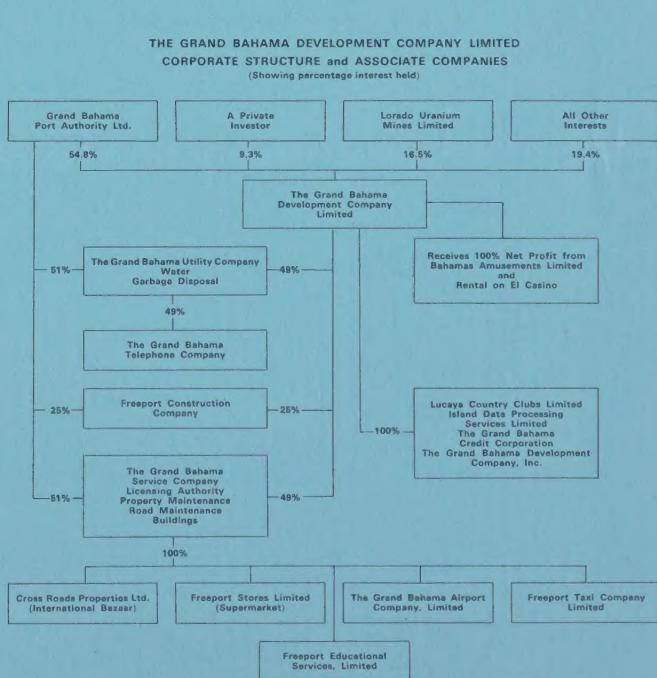
It has been agreed that the Company will receive from Bahamas Amusements Limited the net profits derived by that company from its operations. Because of the peculiarities of casino operations, it is a policy of The Development Company to reflect the annual profits of the Amusements Company only on the final statement for the year at October 31. Therefore, the statement for the ten months ended August 31, 1966 does not provide for the net profits, if any, for the Amusements Company for that period.

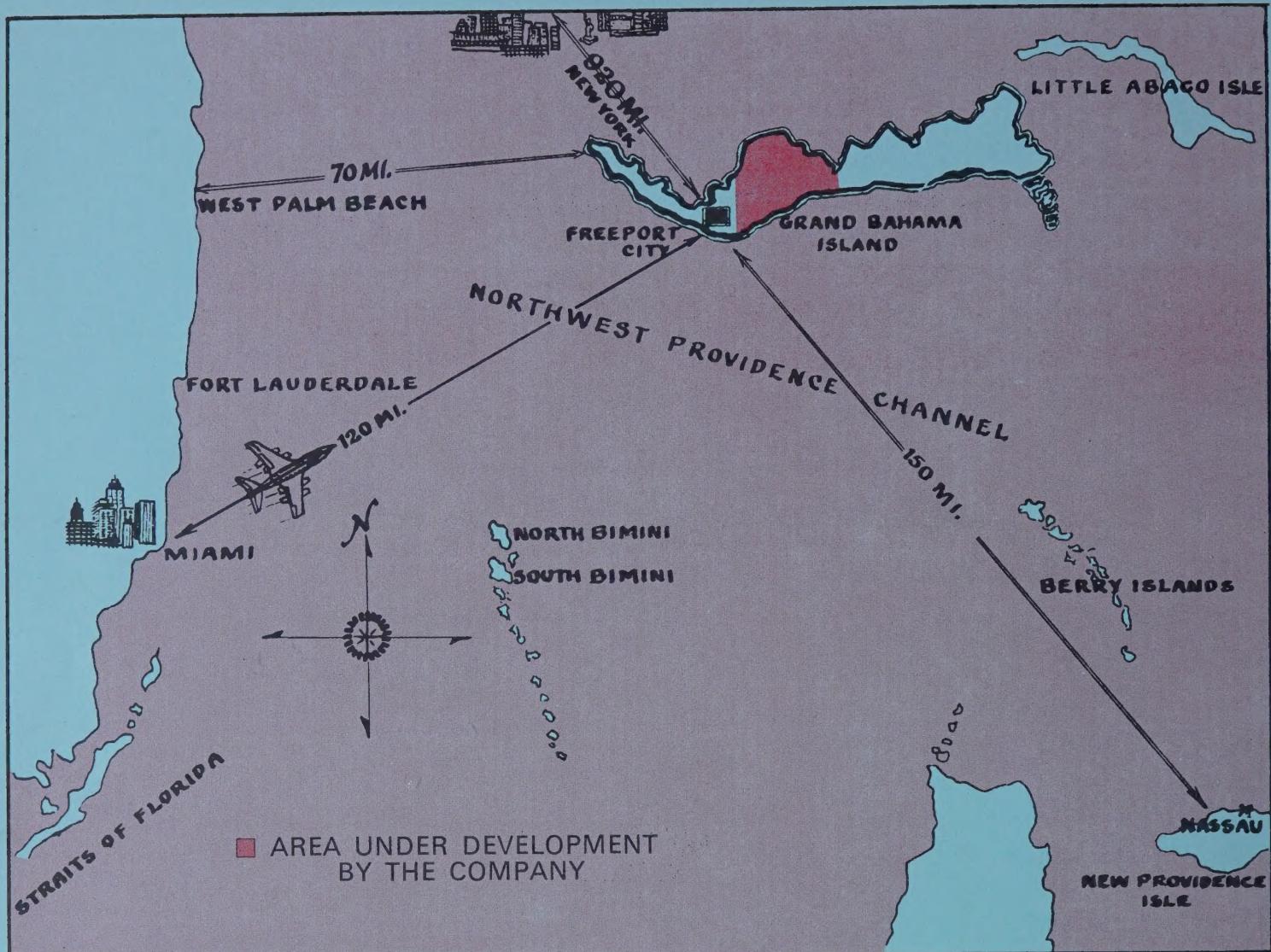
Under an agreement for the provision of air services, the Company has guaranteed until 1968, to reimburse the aircraft operator the amount by which certain of his specific costs exceed his net income, if any. To date, this obligation has been reimbursed by Bahamas Amusements Limited.

Bahamas Amusements Limited has entered into agreements whereby it will indirectly receive approximately twenty-five per cent of the net profits of a new casino situated in Nassau, Bahamas. Grand Bahama Development Company and Bahamas Amusements have jointly and severally guaranteed a bank loan of \$400,000 to the new casino operating company.

Note 11—Commitments and Contingent Liabilities

- The Company is contingently liable for \$150,000 for Notes discounted with the Royal Bank of Canada.
- The Company has guaranteed a loan of \$147,000 to a sales broker against commissions due to the broker.





AREA UNDER DEVELOPMENT BY THE COMPANY

LEGEND

- RESIDENTIAL
- COMMERCIAL
(HOTELS, MOTELS, ETC.)

FREEPORT PORT AUTHORITY AREA

